



ALLOWABLE COST POLICY MANUAL

June 2012 Revision

**Department of Children and Families
Division of Management Services
Bureau of Finance
201 E. Washington Avenue
Madison, WI 53708**

**Telephone: (608) 264-6992
Fax: (608) 267-3240
Email: DCFAuditors@wisconsin.gov
Website: www.dcf.wisconsin.gov**

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Acronyms

CFR – Code of Federal Regulations

DCF – Department of Children and Families

GAAS – Generally Accepted Auditing Standards

GAGAS – Generally Accepted Government Auditing Standards

OMB – U.S. Office of Management and Budget

PAAG – Provider Agency Audit Guide

SSAG – State Single Audit Guidelines

Introduction

Grant funds from the Department of Children and Families (the Department) may only be used for allowable costs. The *Allowable Cost Policy Manual* sets forth the principles for determining the allowable costs of programs from the Department. The purpose of these principles is to determine costs; however, they do not dictate the extent to which the Department will reimburse these costs. They are designed to provide that the Department's programs bear their fair share of costs, except where restricted or prohibited by law or contract. There is no intent for grant recipients to make a profit or other increment above allowable costs, except where specifically authorized by Wisconsin Statutes.

When determining whether a cost is allowable, an agency shall consult the following:

- The Department's general principles for allowability that all costs must meet. These principles are discussed in Chapter I, “General Principles for Allowability.”
- The federal cost principles applicable to that type of agency. Federal cost principles are addressed in Chapter II of this Manual.
- Selected items of cost where state policy differs from or expands on federal policy. These differences in cost policy are presented in Chapter III, “Selected Items of Cost”.
- The list of unallowable costs contained in Chapter IV of this Manual. The costs on this list represent expenditures specifically classified as unallowable by federal and state cost guidelines.
- The contract or other program-specific guidance for provisions applicable to the particular grant or program. Specific statutory provisions, administrative rules, departmental policies or federal regulations may require exceptions to the provisions contained in this document. Where these exceptions occur, they will be specifically indicated in the contractual agreements between the state and the provider or county as exceptions to the allowable cost policy. In no instance shall the same cost be reimbursed more than once.

Changes In This Revision

The June 2012 revision of this Manual includes two new sections. The first, Chapter IV, includes a list of costs that are generally considered unallowable. The second, Chapter V, discusses minimum documentation requirements to properly support the costs charged to DCF programs. Costs that are not adequately documented will be disallowed during fiscal reviews by the Department's Fiscal Integrity & Audit Section staff.

The information contained in the two new chapters does not establish new policy for the Department, but rather, is provided to clarify questions that providers may have about the allowability of certain costs and how costs should be documented. Federal cost principles and the previous version of this Manual have always addressed the allowability of certain costs. Proper accounting procedures have always required adequate documentation of all transactions, not just expenditures.

The other major change incorporated in this revision is the relocation of the various OMB Circulars related to cost principles to the Code of Federal Regulations. The references and links in Chapter II and throughout the Manual have updated to reflect these changes.

The guidance in this Manual shall not be construed in any way to dictate or limit the amounts which agencies may expend. However, this material does specify what costs may or may not be allowable for inclusion in contracts and/or reimbursable from the Department. Agencies shall obtain written approval from the Department prior to incurring special or unusual costs.

Chapter I — General Guidelines for Allowability

All costs that are reimbursed by Department programs must meet general guidelines for allowability in the following areas, each of which is discussed in detail in this section:

- General Criteria
- Direct Costs, Allocated Costs, and Indirect Costs
- Procurement and Purchase of Care and Services
- Related Party Transactions
- Revenue in Excess of Allowable Costs
- Third-party Revenue

General Criteria

There are many factors that affect the allowability of costs. In order to be allowable for reimbursement by programs funded by the Department, all costs must meet the following general criteria:

- **Be necessary and reasonable** for proper and efficient program administration and allocable under these guidelines. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining the reasonability of a given cost, consideration shall be given to:
 - Whether the cost is ordinary and necessary to the operation of the agency or to the performance of the award.
 - The restraints or requirements imposed by such factors as sound business practices, arms-length bargaining, laws and regulations, and terms and conditions of the program.
 - The market prices for comparable goods and services.
 - Whether the individuals involved acted with prudence considering their responsibilities to the agency, the public at large, and the granting agency.
 - Whether the costs were incurred in accordance with the agency's established procurement policy.

- **Be allocable.** Only costs that are directly attributable to specific work under a grant or to the normal administration of the grant are allowable for reimbursement. Costs that result in personal benefit are not allowable. A cost is allocable to a program if the goods and services involved are chargeable or assignable to the program in proportion to the relative benefits received.
- **Be authorized** by the agency administrator or funding agency and not prohibited by state or local laws.
- **Be in conformance** with any limitations or exclusions set forth in this Manual, federal or state laws, or other governing limitations as to types or amounts of cost items.
- **Be consistent** with policies, regulations, and procedures that apply uniformly to both financially assisted activities and to other activities of the agency.
- **Be accorded consistent treatment.** Consequently, a cost may not be assigned to a program as a direct cost if any other cost under the same circumstances has been charged to a program as an indirect cost.
- **Be determined in accordance** with generally accepted accounting principles or other accounting method appropriate to the circumstances.
- **Not be allocable to or included as a cost of any other federal, state, or other agency financed program** in either the current or prior period.
- **Be net of all applicable credits.** Applicable credits are receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to programs as direct or indirect costs, including discounts or rebates subsequently received for prior purchases. Agencies are expected to take advantage of available discounts on purchases of goods and services. The granting agency may disallow the excess costs if a subgrantee's costs are inflated due to failure to take advantage of available discounts or to report those discounts that were received.
- **Be supported by the agency's accounting records** and be adequately documented. See Chapter III "Accounting Records and Source Documentation" of the *Financial Management Manual for Counties, Tribes and 51 Boards* and the applicable parts of the Code of Federal Regulations in Title 2 for additional information on accounting records and source documentation. Documentation requirements are discussed in depth in Chapter V of this Manual.

Direct Costs, Allocated Costs, and Indirect Costs

The total cost of a grant program is comprised of the allowable direct costs incident to its performance, plus its allocable portion of allocated and indirect costs, less applicable credits. The term "applicable credits" is defined above. The terms "direct costs," "allocated costs," and "indirect costs" are defined in the following ways:

- **Direct Costs** - A direct cost is any cost that can be identified with a particular program or cost objective. For example, the entire salary of an individual who spends all of his or her time working on a single program can be charged as a direct cost to that program.
- **Allocated Costs** - A direct cost can directly benefit more than one program or function and can, therefore, be allocated (or charged) to the benefiting programs or functions on some reasonable and equitable basis. For example, an individual spends his or her time working on a number of different programs that the agency operates. Salary and related fringe benefits can be charged to the respective programs based on the number of hours reported to each program on employee time sheets.
- **Indirect Costs** - Indirect costs are those costs that are incurred by an agency that are not readily chargeable to a particular program or function, but benefit all programs and functions operated by the agency. Indirect costs are necessary to the overall operation of the agency, but a direct relationship to a specific program cannot be shown. An example of an indirect cost might be the salary and related fringe benefits paid to the agency's accounting staff and/or the executive director. Generally, these kinds of costs are identified, pooled, and charged against individual programs or funding sources using a rate designed to recover the costs. An agency should take care to ensure that no unallowable costs are included in indirect costs allocated to DCF programs.

The same type of cost may be a direct cost in one agency and an indirect cost in another agency, because each agency has to determine for itself which costs are direct, which are indirect, and how these costs can best be allocated to the benefiting programs. However, an agency must treat each item of its costs consistently as a direct, allocated, or indirect cost. Also, as noted under the general criteria, a cost may not be assigned to a program as a direct cost if any other cost under the same circumstance has been charged to a program as an allocated or indirect cost.

Direct costs shall be claimed whenever possible based on the nature of the costs and the accounting system in place. When indirect costs are charged, they shall be accumulated by logical cost groupings and distributed equitably to all programs or functions of the agency using a rate designed to recover the costs of the pool established through the indirect cost plan. Costs must not be charged to programs based on funds available or revenues received.

The basis used shall be an equitable measure of the extent to which the cost incurred actually benefits the program to which it is charged. For example, square footage used by the various programs operated by the agency would be an equitable basis to allocate the total rent or utility costs incurred by the agency. Costs that are part of the agency indirect cost pool shall not duplicate any costs that are charged directly, and total costs charged may not exceed the actual costs incurred.

General departmental policies governing the allowability of allocated direct and indirect costs are as follows:

- **County Agencies** - Indirect costs for county agencies are allowable if the county develops and retains on file an approvable county-wide indirect cost allocation plan. Any allocated costs must be supported by a cost allocation plan. Both plans must be in accordance with the requirements of [2 CFR Part 225, “Cost Principles for State, Local, and Tribal Governments \(OMB Circular A-87\)”](#) and must be reviewed by the county's independent auditor as a part of the annual single audit. In addition, county agencies must submit an indirect cost allocation plan with DCF in accordance with their contracts.
- **Tribal Governments** - Indirect costs for the Tribal governments are allowable based on the receipt of an approved indirect cost rate that has been negotiated with the United States Department of Interior's Office of Inspector General and is included in the Departmental/Tribal contract. Any allocated costs must be supported by a cost allocation plan.
- **Other Agencies** - Indirect costs for other agencies, such as non-profit organizations, for-profit businesses, local units of government (other than Counties), and educational institutions, must be reasonable; must be documented in writing in an agency-wide Cost Allocation Plan and an agency-wide Indirect Cost Plan; and must be allocated in a manner consistent with the above plans. These plans must be in accordance with the requirements of the applicable federal cost principles and must be reviewed by the agency's independent auditor as a part of the annual audit.

Procurement and Sub-Contracting

Each agency shall have policies and procedures in place to provide reasonable assurance that the agency's procurement and sub-contracting activities are in the best interest of the agency, considering its responsibilities to the organization, its members, employees, clients, the public at large, and the granting agency. Detailed guidance on procurement and sub-contracting can be found in [OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments](#), also known as the “Common Rule”, and [2 CFR, Part 215, “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations \(OMB Circular A-110\)”](#).

These documents should be consulted when developing or assessing an agency's policy on procurement and sub-contracting. In addition, W-2 contract agencies who subcontract for services with other agencies should consult [Administrator's Memo 06-10](#) for detailed and specific guidance.

All care and services under ch. 48 and s. 49.34 purchased by the Department, or a county department under s. 46.215, 46.22, or 46.23 of the Wisconsin Statutes shall be authorized by a written contract with the provider, with two exceptions:

- For purchases of \$10,000 or less, the requirements for a written contract may be waived by the Department.
- No contract is required for care provided by foster homes or treatment foster homes that are required to be licensed under s. 48.62 of the Wisconsin Statutes.

The Department may require the county departments to submit the contracts to the Department for review and approval.

Minimum Standards

When procuring or sub-contracting under a grant from the Department, an agency should use its own policies and procedures, provided they adhere to the following minimum standards:

- **Written Standard of Conduct** - The agency shall maintain a written standard of conduct that includes a prohibition against any employee, officer, or agent of the recipient participating in the selection, award, or administration of a contract in which financial assistance funds are used, where, to his knowledge, he or his immediate family, partners, or organization in which he or his immediate family or partner has a financial interest or with whom he is negotiating or has any arrangement concerning prospective employment.

Public officials and employees should also be aware of Sec. 946.13 of the Wisconsin Statutes, which prohibits a public official or employee, acting in his private capacity, from negotiating, bidding, or entering into a contract in which he has private pecuniary interest at the same time he is authorized in his official capacity to exercise discretion in making or administering the contract.

Agencies should consult their corporation counsels, or equivalent, if they have concerns regarding conflict of interest.

- **Open and Free Competition** - Procurement and sub-contracting shall be conducted in a manner to provide, to the maximum extent possible, open and free competition.

The agency shall be alert to organizational conflicts of interest or non-competitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade.

Those who develop or draft specifications, requirements, bid invitations, requests for proposals, etc. should be excluded from competing.

Awards should be made to the bidder/offeree whose bid/offer is responsive to the solicitation and is most advantageous to the agency.

Solicitations should clearly set forth all requirements that the bidder/offeree must fulfill in order for his bid/offer to be evaluated by the agency.

Any and all bids/offers may be rejected when it is in the agency's interest to do so.

- **Minimum Procedural Requirements** - Recipients should establish written procedures that provide for, at minimum, the following requirements:
 - Procurement and sub-contracting actions shall follow a procedure to avoid purchasing unnecessary or duplicative items.
 - Solicitations for goods and services shall clearly and accurately describe the goods and services to be procured or sub-contracted.
 - Some form of price or cost analysis shall be made in connection with every procurement and sub-contract action to ensure that costs incurred are reasonable, that costs are allowable if they are charged to financial assistance programs, and that the agency is not paying for services which are otherwise available free of charge to the agency.
 - A system of contract administration should be in place to ensure contractor conformance with terms, conditions, and specifications of contracts or purchase orders.

Related Party Transactions

A related party transaction occurs when one party to a transaction can influence the management or financial operating policies of the other party. Examples of related party transactions include, but are not limited to, transactions between:

- Divisions of an organization.
- Organizations under common control through common officers, directors, or members.

- An organization and a director, trustee, officer, or key employee of the organization or his immediate family either directly or through corporations, trusts, or similar arrangements in which they hold controlling interest.

The fact that two parties in a transaction are related does not automatically mean the costs incurred are inappropriate and unallowable. However, the public interest requires that an agency receiving state and federal funds act in a manner consistent with the public interest, which includes spending funds cost-effectively. Transactions between two related parties raise concerns that the public interest may not be adequately considered.

Therefore, a cost incurred as the result of a related party transaction will be considered allowable only if:

- The cost meets allowability criteria articulated in this Manual, applicable federal cost circulars, and/or other pertinent state and federal guidelines, and
- The cost results from the agency following procurement and sub-contracting policies and practices which meet minimum federal and Department guidelines. (See the previous section for discussion of the Department's guidelines for procurement and sub-contracting policy.)

Additional considerations need to be made when determining the allowability of rental charges between related parties and of costs incurred under cost-reimbursement contracts:

- When an agency rents or leases property from a related party, allowable costs are limited to actual costs that would have been allowed had title to the asset been vested with the agency. Examples of allowable expenses of ownership include interest, depreciation or usage allowance, maintenance costs, and utilities, if not charged separately.
- As indicated in the introduction to this Manual, there is no intent for a provision for profit or other increment above allowable costs, except where specifically authorized by the Wisconsin Statutes. In keeping with this intent, no profit or other increment above allowable costs shall be incurred for cost-reimbursement contracts that involve purchases or sub-contracts between related parties. Allowable costs are limited to the actual allowable costs incurred by the related party.

Revenue in Excess of Allowable Costs

Under contracts where payments are limited to allowable costs or to a percentage of allowable costs or contracts with for-profit agencies, any revenue in excess of the contracted limit must be returned to the granting agency unless the granting agency specifically authorized the agency to keep the revenue.

Third-Party Revenue

Some contracts provide a specified level of funding and require additional revenues to be collected from various types of third parties. Typically an agency's accounting records need to show all revenues received by an agency regardless of source. Also, the agency must identify all revenues collected by a subcontractor that would reduce the amount of state or federal funds paid to the subcontractor and claimed by the agency from the Department.

The Department expects that all agencies (both counties and private vendors) record gross revenues and expenditures in the appropriate accounts. Revenues should be clearly identified in the appropriate revenue ledgers. The same principle applies to the recording of expenditures.

All contracts must be written to require that the revenue from sources other than the grant is to be used to offset the expenditures that would otherwise be charged to the grant. For example, there are cases where, as a condition of the contract, the contractor is expected to provide services up to a specific dollar amount identified in the contract with an expectation that the contractor would be billing other responsible parties, such as private insurance companies or the client for the service rendered. In cases where the amount collected from third parties exceeds the planned amount, the excess revenue must be used to offset expenditures previously charged to grants.

The Department's intent is for the agency's accounting system to include sufficient detail to identify the total cost of services and total revenue received by service and source.

Chapter II — Federal Cost Principles

The Department has adopted the federal cost principles to provide guidance on the allowability of all Department grants and sub-grants, whether or not the grant or sub-grant includes federal financial assistance. For each kind of organization, i.e. local government or tribe, non-profit agency, educational institution, and commercial organization, there is a set of federal principles for determining allowable costs. The type of organization of the recipient or subrecipient determines the applicable cost principles, regardless of whether funds are received directly from the federal government or through a subaward from a primary recipient. The chart below lists the kinds of organizations and the applicable cost principles, and provides links to the information.

Federal Cost Principles

For the costs of a -	Use the principles in -
State, local, or Indian tribal government	2 CFR Part 225, “Cost Principles for State, Local, and Tribal Governments (OMB Circular A-87)”
Private non-profit organization other than an institution of higher education, hospital, or organization named in OMB Circular A-122 as not subject to that circular	2 CFR Part 230, “Cost Principles for Non-Profit Organizations (OMB Circular A-122)”
Educational institution	2 CFR Part 220, “Cost Principles for Educational Institutions (OMB Circular A-21)”
For-profit organization other than a hospital and an organization named in OMB Circular A-122 as not subject to that circular	48 CFR Part 31, “Contract Cost Principles and Procedures”

Chapter III — Selected Items of Cost

As noted in the introduction to this Manual, there are four key sources for guidance on allowability of costs: the general criteria, federal cost principles, selected items of cost where state policy differs from or expands on federal policy, and program specific guidance. Two of these sources, the general criteria and federal cost principles, were discussed in the Chapters I and II of this Manual, and program specific guidance can be found in the contract or other program-related documents. This chapter includes the discussion of selected items of cost where state policy differs from or expands on federal policy, which we believe most agencies will find beneficial and essential to understanding which costs will be considered allowable. Chapter IV lists items of cost that are unallowable and should not be charged to Departmental programs.

In reviewing these selected items of cost, please keep these points in mind. First, the following principles for allowability of items of specific cost are not all-inclusive, and failure to mention a particular item is not intended to imply that it is either allowable or not allowable. Since many items not listed in this Manual have been discussed in detail in material relating to federal cost policies, we are relying on the federal documents instead of repeating what they have to say. Finally, these principles apply whether a cost is treated as direct or indirect. All costs allocated to programs must be allocated in accordance with a plan that meets the criteria for cost allocation/indirect cost plans described under ["Direct Costs, Allocated Costs, and Indirect Costs"](#) earlier in this Manual.

Advertising and Promotional Expense

Generally, advertising expenses in such media as magazines, newspapers, radio, television, direct mail, exhibits, and electronic and computer transmittals are not allowable. Advertising costs are allowable, however, for notifications related to the administration of a program such as for requests for proposals, recruitment purposes, or to post legal notices.

Allowable promotional expenses related to W-2 programs are limited to activities directed to participant awareness of the W-2 contract agency's specific programs, locations, notification of job fairs and other efforts related to participant access to the services of the W-2 program. Other promotional activities of the W-2 contract agency are not allowable.

In addition, the following spending caps have been put in place for advertising and promotion expenses related to W-2 contracts:

- For W-2 base allocations up to \$2 million – A maximum of \$5,500 for the combined amount spent on advertising and promotion.
- For W-2 base allocations greater than \$2 million – A maximum of \$15,000 for the combined amount spent on advertising and promotion.

Audit Expense

Audit expense is allowable if the audit is required by federal or state law or regulation or is authorized by the Department, and if the audit is performed in accordance with the applicable federal and state guidelines. The guidance that will be applicable to a particular agency depends on the type of agency and the amount and type of financial assistance received by the agency. In general:

- All audits shall be in accordance with generally accepted auditing standards (GAAS) and the [U.S. General Accounting Office Government Auditing Standards](#) (GAGAS).
- Audits of local governments and Tribes shall also be in accordance with the Single Audit Act of 1984, as implemented by [OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations](#), and the Wisconsin Department of Administration's [State Single Audit Guidelines \(SSAG\)](#) if the amount of federal financial assistance expended is more than \$500,000 per year.
- Audits of institutions of higher education, hospitals and other non-profit agencies shall also be in accordance with [OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations](#) and the Department's [Provider Agency Audit Guide \(PAAG\)](#), if the amount of federal financial assistance expended is \$500,000 or more per year.
- Audits of other agencies shall also be in accordance with the Department's *Provider Agency Audit Guide*.

Bad Debts Losses & Collection Expense

To encourage agencies to pursue *reasonable* collection efforts, administrative costs necessary to secure collections are allowable. Such costs may include legal fees, collection agency fees, court costs and other associated expenses. Any bad debt losses arising from uncollectible accounts, or collection efforts when there is little likelihood of recovery, however, are not allowable costs.

For accounts referred to the Department's Collections Section, the portion of uniform fee collections not returned to agencies due to statutory requirements is not an allowable expense.

Client Related Costs

All client services must be authorized in writing by the purchasing agency. The authorization may be for an individual client or target group of clients and must be consistent with the requirements of the funding source (for example, consistent in time frame, units of service,

type of service, etc.). Whether for an individual or for a group of clients, the authorization procedure must be established through written policy and be on file.

Holding Space

With respect to all special living arrangements, foster or family care home placements, payment may be made for no more than the maximum of the established rate for up to 14 consecutive days of absence from the facility when provided in the contract and payment is made on a unit cost basis. Payment shall not be made in any case after it is known that the client will not be returning to the same facility.

When an unusual situation arises and it can be justified that the best interest of the client would be served, payment may be extended with prior approval of the applicable Department program division.

Payment Allowances

Payment allowances are payments made to clients as part of an individual service or rehabilitation/training plan and do not represent wages for work performed. The payments may be contingent upon client behavior or an accomplishment which may be related to the performance of physical tasks as part of a plan for the individual. Payment allowances which are made according to a written plan justifying such costs are allowable.

Transportation

The cost of transportation for clients is allowable if provided through the use of:

- A contracted transportation service.
- Public transportation, e.g., bus or taxi.
- Volunteers using private vehicles.
- Agency-operated vehicles. Reimbursable costs are limited to the actual cost of operation which includes salary, fringe, maintenance costs, repairs, gas, oil, lease costs, and/or depreciation.
- Emergency transportation provided by ambulance or sheriff's department.

Clothing

The cost of clothing for clients is not allowable as reimbursable except in the following instances:

- The clothing is expensed as part of the Uniform Foster Care Rates.
- The clothing is expensed as part of the institution rate.

- Work related clothing is expensed pursuant to an approved plan.

Food

The cost of food provided to clients is allowable when provided in the following settings and when appropriate to the treatment plan:

- Inpatient.
- Residential Care.
- Special Living Arrangements.
- Day Services provided at the normal meal time.
- Other settings specifically authorized by the Department.

Residents in certain kinds of group living arrangements may be eligible for FoodShare benefits while in placement at a facility. (See the [FoodShare Handbook](#), Sections 3 and 4, for eligibility criteria.) FoodShare benefits that are used by the facility to purchase food shall be a cost offset against the cost of food purchased.

The cost of meals for staff members that have no meal period and must remain on duty is allowable. The cost of meals provided to other staff of the facility is not allowable. Staff having meals shall be charged a cost-based fee.

Guardianship Fees

Guardianship fees are allowable when necessary as part of an individual service or treatment plan. To be an allowable cost for a nursing home client, the client must be receiving Medicaid or SSI and one or more services.

Laundry Expense

In a residential or outpatient setting, the cost of laundering patient clothing, facilities linens, uniforms, and required staff uniforms is allowable.

Medical Supplies and Drugs

The cost of first aid supplies is allowable.

Drugs prescribed on an outpatient basis by the physician must meet the following criteria in order to be allowable:

- Costs must not be covered by Title XVIII, Title XIX or other insurance coverage.
- The dispensing pharmacy must have a centralized agreement with the 51 Board agency.

Medical supplies and drugs administered in an inpatient medical facility are allowable.

Space Costs

Using part of a building for agency operations and part for personal use (e.g., group home) causes some unique allocation problems. The normal operating costs appropriate to the business aspect of the building are allowable. The space costs may be determined by using one of the two methods below:

- Actual Costs - The appropriate share of the following costs shall be allowable:
 - Straight line depreciation based on historical cost. See the federal cost circulars for a discussion of depreciation and use allowances.
 - Interest expense on a mortgage.
 - Real estate taxes.
 - Operation and maintenance costs.
- Fair Rental Value - This method is appropriate only for agencies which are not subject to either [2 CFR Part 225, “Cost Principles for State, Local, and Tribal Governments \(OMB Circular A-87\)”](#) or [2 CFR Part 230, “Cost Principles for Non-Profit Organizations \(OMB Circular A-122\)”](#), i.e., the agency is not a local government, tribe, or non-profit organization. In lieu of depreciation, insurance, taxes, and interest, a fair rental value may be determined and be allowed as an allowable expense in addition to operating and maintenance costs. This determination shall be a written appraisal from an appraiser selected by the purchaser to be paid for by the agency. Such costs shall be considered as allowable.

Compensation

See the federal allowable cost guidance for extensive discussion of the factors affecting the allowability of compensation expense, which includes salary, fringe benefits, vacation, bonuses, etc. In general, however, these costs are allowable for reimbursement by Department programs only if in accordance with written policies and procedures approved by the agency's board of directors or the equivalent.

W-2 Agencies

Employee bonuses are an allowable cost for W-2 agencies only with a bonus plan that has been approved by the Department prior to the payment of bonuses. The agency needs to provide information that shows that the bonus plan is reasonable, consistently applied, and specific as to the behaviors that will be rewarded and the expected outcomes. A more in-

depth discussion on employee bonuses is contained in DCF's Financial Policy on [Employee Bonuses – W-2 Agencies](#).

Data Processing

Local governments using federal financial assistance under certain programs from the U.S. Department of Health and Human Services and the U.S. Department of Agriculture for automated data processing equipment or services must comply with the rules established by these federal agencies requiring prior approval of the use of funding for these purposes. These rules are detailed in the [Code of Federal Regulations at 45 CFR 95.611](#).

Depreciation and Use Allowances

See ["Equipment and Other Capital Expenditures."](#)

Entertainment

The cost of entertainment, amusements, social activities, and any incidental costs associated with these costs, such as tickets to shows or sporting events, meals, beverages, lodging, transportation, etc., which are not directly a program need are not allowed.

Equipment, Non-Capital Equipment and Supplies

Equipment is defined as an item of non-expendable, tangible property having an acquisition cost of \$5,000 or more and a useful life of more than one year. It includes information technology hardware and software. Equipment should be inventoried and tracked as a fixed asset. Generally, equipment can only be charged to DCF contracts/grants through depreciation or use allowances over the life of the item. (See the federal cost principles for a full discussion of the allowability of depreciation and use allowances.)

Expenditures for items costing less than \$500 are considered supplies and should be expensed immediately. Expenditures for items costing \$500 or more and less than \$5,000 with a useful life of one year or more should be classified as non-capital equipment and expensed immediately. In addition, non-capital equipment should be inventoried and tracked as a fixed asset.

Under certain circumstances, and only with written approval from DCF obtained prior to making the purchase, equipment and other capital expenditures with an acquisition cost of \$5,000 or more and less than \$25,000 can be expensed at the time of purchase. In keeping with the policy that costs cannot be charged to programs more than once, depreciation associated with equipment that was expensed at the time of purchase is not allowable for reimbursement.

A more in-depth discussion on the purchase, disposal and allowable costs is addressed in DCF's Financial Policy on [Equipment – Purchase, Charging and Disposal](#).

Fines and Penalties

Costs resulting from violation of or failure to comply with federal, state, local or Indian tribal laws and regulations are not allowable. Such costs include fines, penalties, lawsuit settlements, payments to terminated employees, cash settlements, damages, and back wages.

Food and Beverages

Agencies frequently have questions regarding food and beverages and whether these are allowable costs. Food and beverages offered in conjunction with meetings, training sessions or conferences, the primary purpose of which is the dissemination of technical information, are allowable. For example, a W-2 agency is hosting a meeting for W-2 participants to follow up on their progress, discuss new job opportunities, and make them aware of new training programs. They serve coffee, sodas and cookies to participants. The cost of these refreshments is an allowable cost.

The Code of Federal Regulations in both [2 CFR Part 225, “Cost Principles for State, Local, and Tribal Governments \(OMB Circular A-87\)”](#) and [Title 48, Part 31.205-13](#) address “Employee morale, health and welfare costs” and consider them allowable expenses. The CFR states that “Aggregate costs incurred on activities designed to improve working conditions, employer-employee relations, employee morale, and employee performance (less income generated by these activities) are allowable.” It provides examples of activities that qualify, including “food and dormitory services for the contractor's employees at or near the contractor's facilities” and “operating or furnishing facilities for cafeterias, dining rooms, canteens, lunch wagons, vending machines.”

Some agencies have interpreted this to mean that the costs of coffee service, cups, silverware or other refreshments provided by the agency to staff and clients is an allowable cost. It is not. Under the CFR, these costs need to be offset against any income generated by these activities. The CFR further adds that agencies are expected to operate these activities on at least a “break-even basis.” Since providing complimentary food or refreshments is not conducive to operating at a break-even basis, any losses incurred are not allowable.

Gifts and Donations to the Agency

Gifts and donations to the agency shall be reported as permanently restricted net assets, temporarily restricted net assets, or unrestricted net assets based on the existence or absence of donor-imposed restrictions. The governing board of an agency may choose to designate its unrestricted funds for specific purposes. Information about restrictions and designations should be provided in the notes to the financial statements. Unrestricted gifts and donations

that have not been designated for a specific purpose at the time of receipt shall be used to offset expenses.

Interest

Interest is generally not an allowable expense under federal cost policies. However, Department policy allows interest for space costs if there is a direct relationship such as a mortgage or bond issuance, and the Department allows financing costs for specific items of equipment such as leases. Interest expense incurred for newly-constructed buildings that are capitalized prior to the date of occupancy are allowable. Interest costs for unsecured loans, general operating expenses, working capital, retirement of other debt, or for any other purposes are not allowable. Professional and legal fees for financing are not allowable unless directly associated with an allowable interest expense for space costs or equipment.

Legal Expense

See the federal allowable cost guidance for discussion of the allowability of legal expenses. The Department has additional policies on the allowability of legal expenses which are applicable for all agencies which receive financial assistance and some that are applicable only to Counties and 51 Boards. In addition, there are spending caps for legal fees incurred by W-2 agencies.

All Agencies

The following policies are applicable to all agencies receiving financial assistance from the Department:

- Legal expenses incurred in the normal course of providing service to clients are allowable. Expenses incurred pursuing recovery on assignment of insurance benefits, filing claims in court, and processing sales of property deeded to the agency or county, etc. are allowable.
- Claims for reimbursement of legal services must be based upon the compensation or salary authorized by the county board, the board of directors, or equivalent.
- Time sheets or actual time logs must be used to substantiate reimbursement claims for legal services. This documentation will be examined during routine audits performed by the Department and/or the independent auditor.
- The cost of legal services incurred to sue a governmental agency is not allowable.
- Legal fees associated with incorporating or organizing an agency are not allowable.

Counties and 51 Boards

The following policies are applicable only to Counties and 51 Boards:

- County social service departments and 51 Boards may not contract with private attorneys to provide legal services nor may they directly employ attorneys on their staff who are solely supervised by that department. The authority to advise and represent county offices and agencies rests solely with the District Attorney or corporation counsels offices.
- Section 51.42(5)(h)7 permits multi-county 51.42/51.437 boards to retain private legal counsel only where the corporation counsel of each county, or district attorney of each county not having a corporation counsel, notifies the board that he or she is unable to provide specific services in a timely manner. Litigation, as used in section 59.44(3), applies only to civil court proceedings and does not include grievance proceedings or proceedings before an administrative agency.
- The Department will reimburse only for legal services provided to county departments of social services, 51 Boards and human services departments by district attorneys, assistance district attorneys, corporation counsels and assistant corporation counsels. Legal services which are the statutory responsibility of the District Attorney or corporation counsel are not allowable except when specifically authorized by the Department.
- The Department will reimburse multi-county 51.42/51.437 boards for legal services provided by private legal counsel only when the corporation counsel of each county, or district attorney of each county not having a corporation counsel, notifies the board that he or she is unable to provide specific services in a timely manner.

W-2 Agencies

W-2 contract agencies may only procure and incur legal costs on a billable hours basis. Costs for a legal retainer agreement in which funds are paid for the availability of a lawyer are not allowed. The following legal spending caps include W-2 costs for legal services whether the services are provided by in-house staff or outsourced:

- For W-2 base allocations up to \$2 million – A maximum of \$5,000
- For W-2 base allocations greater than \$2 million – A maximum of \$50,000

Production/Commercial Service Costs

Production/Commercial Services are subcontract work, prime manufacturing, and/or providing a service (janitorial, greenhouse worker, microfilm technician, etc.) in conjunction with a rehabilitation or training program. In general, all costs incurred in the production or

service activity must be recovered in the price of the product or service. Therefore, the following production/commercial service costs are not allowable:

- Cost of direct labor to produce the product or provide the service (wages and fringe benefits).
- Cost of indirect labor required to support the production/service activity (wages and fringe benefits of administration, clerical, and supervisor personnel).
- Cost of direct materials, inventory, tooling, and/or equipment (raw materials, machinery, tools, etc.).
- Cost of indirect materials, and supplies required to support the production activity (tape, cartons, staples, etc.).
- Procurement and selling expense (promotional activities, advertising, travel, shipping/receiving warehousing expenses, wages and fringe benefits of procurement/salesperson).
- Production/commercial service overhead expenses needed to support the production/service activity (workshop floor space which includes offices, depreciation of building, building insurance, maintenance/replacement of equipment and depreciation, utilities, etc.).

However, rehabilitation/training costs are not generally included in the price of the product or service and can be charged to the respective funding sources. The facility must use a justifiable, logical, and equitable method of establishing rehabilitation training costs based on measurable, identifiable factors which are consistently applied to the total agency operations and are acceptable to the respective funding sources.

Profit for For-Profit Agencies Which Provide Client Care

Wis. Stat. 49.34(3)(c) permit for-profit agencies to include a percentage add-on for profit according to rules promulgated by the Department. (This does not, however, include for-profit W-2 agencies. They are not permitted to earn a profit.) This percentage is meant to provide a reasonable return on equity capital invested and used in the provision of client care, and may be included as an element of the reasonable cost of covered services furnished to clients.

The amount of profit allowable on an annual basis is determined as follows:

1. **Calculate net allowable operating costs** by deducting from total expenses any unallowable costs for the year.

2. Calculate allowable profit based on average equity

Allowable profit under the equity method is the sum of 7.5% of net allowable operating costs, plus 15% of average net equity for the year. Average Net Equity is defined as the average cost of equipment, buildings, land and fixed equipment, less average accumulated depreciation and average long term liabilities for the year.

3. Calculate allowable profit based on expenses

Allowable profit based on expenses is equal to 10% of allowable operating costs for the year.

4. Determine allowable profit by comparing the results of the calculations in Steps 2 and 3 above. Allowable profit is the lesser of the two.**5. Determine if there are any excess profits** by adding the allowable profit to the allowable operating costs and comparing this figure to total revenue. Profits in excess of the allowable limit must be returned to the funding agency. The auditee should consult with the funding agency on treatment of excess profit. Funding agencies decide how to handle excess profit, and they make this decision based on the terms of the contract and requirements of the funding source. Their options include returning the funds outright and recovering through a rate adjustment.

DCF has created an [Allowable/Excess Profits Calculator](#) that will help you analyze your allowable profit and determine the amount of any excess profits.

Reserved Amount for Nonprofit Agencies Using a Prospectively Set Rate

Non-profit agencies are allowed to keep a portion of the excess revenue generated by a rate based service. The portion of that rate has historically been limited in statute by a two part test: a 5% annual limit and a ten percent (10%) cumulative limit. Reserves may be retained, in accordance with the following statutory provisions:

Selected portions of 49.34 as revised by 2009 Wisconsin Act 335

49.34(5m)(a)1. *In this subsection, "Provider" means a nonstock corporation organized under ch. 181 that is a nonprofit corporation as defined in 181.0103(17), and that contracts under this section to provide client services on the basis of a unit rate per client service or a county department under s. 46.215, 46.22, 51.42, or 51.347 that contracts under this section to provide client services on the basis of a unit rate per client service..*

49.34(5m)(a)2. *"Rate-based service" means a service or a group of services, as determined by the department, that is reimbursed through a prospectively set rate and that is distinguishable from other services or groups of services by the purpose for which funds are*

provided for that service or group of services and by the source of funding for that service or group of services.

49.34(5m)(b)1. *Subject to subds. 2. and 3. and par.(em), if revenue under a contract for the provision of a rate-based service exceeds allowable costs incurred in the contract period, the provider may retain from the surplus generated by that rate-based service up to 5% of the contract amount. A provider that retains a surplus under this subdivision shall use that retained surplus to cover a deficit between revenue and allowable costs incurred in any preceding or future contract period for the same rate-based service that generated the surplus or to address the programmatic needs of clients served by the same rate-based service that generated the surplus. This subdivision does not apply to a child welfare agency that is authorized under [s. 48.61 \(7\)](#) to license foster homes, a group home, as defined in [s. 48.02 \(7\)](#), or a residential care center for children and youth, as defined in [s. 48.02 \(15d\)](#).*

49.34(5m)(b)2. *Subject to subd 3 and par.(em), a provider may accumulate funds from more than one contract period under this paragraph, except that, if at the end of a contract period the amount accumulated from all contract periods for a rate-based service exceeds 10% of the amount of all current contracts for that rate-based service, the provider shall, at the request of a purchaser, return to that purchaser the purchaser's proportional share of that excess and use any of that excess that is not returned to a purchaser to reduce the provider's unit rate per client for that rate-based service in the next contract period. If a provider has held for 4 consecutive contract periods an accumulated reserve for a rate-based service that is equal to or exceeds 10% of the amount of all current contracts for that rate-based service, the provider shall apply 50% of that accumulated amount to reducing its unit rate per client for that rate-based service in the next contract period. The department may grant an exception to this subdivision upon request of a provider that is a child welfare agency that is authorized under [s. 48.61 \(7\)](#) to license foster homes, a group home, as defined in [s. 48.02 \(7\)](#), or a residential care center for children and youth, as defined in [s. 48.02 \(15d\)](#).*

49.34(5m)(b)3. *If on December 31, 1995, the amount accumulated by a provider from all contract periods ending on or before that date for all rate-based services provided by the provider exceeds 10% of the provider's total contract amount for all rate-based services provided by the provider in 1995, the provider shall, at the request of a purchaser, return to that purchaser the purchaser's proportional share of that excess.*

49.34(5m)(f) *All providers that are subject to this subsection shall comply with any financial reporting and auditing requirements that the department may prescribe. Those requirements shall include a requirement that a provider provide to any purchaser and the department any information that the department needs to claim federal reimbursement for the cost of any services purchased from the provider and a requirement that a provider provide audit reports to any purchaser and the department according to standards specified in the provider's contract and other standards that the department may prescribe.*

Recent Changes

Wisconsin Act 335 eliminated the five percent (5%) annual limit for certain child welfare agencies and provides for waivers of the ten percent (10%) cumulative limit. Specifically, child welfare agencies that are authorized under s. 48.61 (7) to license foster homes; group homes, as defined in s. 48.02 (7); and residential care centers for children and youth, as defined in s. 48.02 (15d), are no longer subject to the five percent (5%) annual limit for contracts in effect from January 1 – December 31, 2010.

The change is effective for calendar year 2010. The five percent (5%) limit applies to calendar year 2009 out-of-home care revenue. This change should be reflected in 2010 audits.

The Act allows the Department to grant exceptions to the ten percent (10%) limit for these same agencies to allow for conversion to performance based contracts. The Department will apply the ten percent (10%) limit to all cost reimbursement contracts and will not consider requests for exceptions to this limit until performance based contracts are implemented.

Currently, some counties have negotiated reserve standards with providers that are stricter than the statutory limits. The Act does not require counties with stricter reserve standards in their contracts to change these standards or contracts. The Act does not prohibit counties from negotiating reserve standards that are stricter than statutory limits.

Multiple Reserve Amounts

49.34 (5m)(b) 1 indicates that an organization could conceivably have more than one reserve amount since reserves are generated when revenue received under a contract exceeds the allowable costs incurred in providing a rate-based service. 49.34 (5m)(a) 2 indicates that "rate-based service" means a service or a group of services which is reimbursed through a prospectively set rate and is distinguishable by the purpose for which funds are provided and by the source of funding.

In order to evaluate the potential impact of reserves upon its claims for federal reimbursement, the Department needs to be able to determine the existence and amounts of reserves associated with the various programs for which federal funds are claimed. In addition, prudent financial management, and the reserves legislation, specify circumstances under which reserves generated by contracts for a particular rate-based service should be used to reduce the cost of, or address the programmatic needs of the clients receiving, a particular rate-based service.

There is no intention to unnecessarily increase the identification of separate rate-based services and their associated potential reserve amounts. However, where an organization provides services which are completely federally funded, these services and any reserves associated with them need to be identified separately. Where it is not possible to clearly distinguish between services by funding sources, the practice of identifying a single reserve amount associated with all of the services taken together is acceptable.

Return of Excess Reserves

Both s. 49.34 (5m)(b) 2 and 3 specify that purchasers may request that providers return their proportional share of amounts exceeding specified amounts remaining at the ends of contract periods.

However, purchasers do not typically find out what the amounts remaining at the ends of contract periods are until they receive a copy of the audit report from the provider, which is often six months or more after the close of a contract period. Because purchasers need to obtain an audit to enable them to decide whether they wish to exercise their option to request a return of funds, it is legitimate for them to exercise their option when the audit report is obtained and reviewed by them.

Although both s. 49.34 (5m)(b) 2 and 3 specify that purchasers may request that providers return their proportional share of amounts exceeding specified amounts remaining at the ends of contract periods, the method or methods for determining the purchaser's "proportional share" is not addressed. Given this, it is reasonable to suppose that any method for determining the purchaser's "proportional share" which is fair and agreed to by both purchaser and provider may be used. Whatever method is used should be applied consistently for all purchasers. It would probably be in the best interests of the provider, and minimize potential conflict, for the provider to establish, through policy, the method used to determine proportional shares.

Where actual data exists which allows a precise determination of each purchaser's proportional share, such data should be used. However, it is not anticipated that either purchasers or providers should develop and maintain elaborate records for the purposes of determining proportional shares should the need arise.

For example, it is not always possible to determine from a provider's audit report, where it discloses a reserve, which purchasers have contributed how much to the reserve amount reported. In these circumstances, one might devise a method for calculating a purchaser's proportional share which does not depend on knowing which purchasers contributed how much to the reserve. How such a method might work is discussed in the example below:

(NOTE: This example should be read in conjunction with the provisions of s. 49.34 (5m)(b) 2 and 3.)

Suppose that at the end of a particular contract period a provider has an accumulated reserve of \$60,000 and that the provider received \$400,000 in contract revenue during that contract period. Under 49.34 (5m)(b) 2, the provider could retain up to \$40,000 of the reserve, unless retention is specifically prohibited by contract. \$20,000 of the accumulated reserve would need to be returned to purchasers, if the purchasers request. If a particular purchaser believed it was entitled to a return of some portion of the provider's excess reserve, but did not know whether it contributed to the reserve, how might this be accommodated? Suppose further that the purchaser requesting a

return of a portion of the reserve had provided \$50,000 of the provider's \$400,000 in contract revenue for the period. The purchaser and provider might agree that a reasonable method for calculating the purchaser's proportional share would be to base it on the purchaser's percentage of business with the provider. Thus, the purchaser provided \$50,000 (or 12.5%) of the provider's \$400,000 in contract revenue. 12.5% of the \$20,000 to be returned at the request of a purchaser is \$2,500. In this case, the purchaser's proportional share of the reserve to be returned would be \$2,500, even if it could not be determined whether this particular purchaser had contributed to the reserve amount disclosed in the audit report.

Establishing Rates

The process of establishing rates for services is driven by two main items: the estimated costs of providing services and the estimated number of recipients of services. In an ideal world, if these estimates are accurate and realized, then the provider will break even. Otherwise the provider will experience either an operating loss or a surplus.

The goal of rate development and negotiation should be to arrive at a break even rate. This may include the consideration of anticipated vacancies, but should not include budgeting (in any number of ways) to generate a planned surplus at the end of the year.

It is also worth pointing out that while it may be useful to think of a reserve as basically the difference between operating revenues received and otherwise allowable costs as defined in the allowable cost principles, there are some qualifications. For example, one could not take an amount that has been identified as an audit disallowance (or an audit adjustment), call it part of a reserve, and be entitled to retain the funds involved.

Start-up Costs

Start-up costs apply to new or expanded services only. Reimbursement to an agency may be based on total allowable costs agreed to by the parties regardless of the actual number of service units to be furnished when the agency is entering into a contract for a new or expanded service that the purchaser recognizes will require a start-up period not to exceed 180 days. Such reimbursement applies only if identified client needs require the establishment of a new service or expansion of an existing service. A written agreement shall state the new or expanded services, the relevant time period, and the type of costs to be reimbursed. When the Department contracts with an agency with an existing program(s), costs of operations prior to the contract effective date may not be claimed unless specifically authorized. Providers may not be reimbursed based on planned or budgeted costs for services when the planned or budgeted services could not be provided during the contract period because of delays in starting up the program.

Telecommunications Expense

Costs incurred for telephone services, local and long distance telephone calls, telegrams, postage, messenger, electronic or computer transmittal services and the like are allowable. W-2 agencies are subject to the following spending caps:

- For W-2 base allocations up to \$2 million – A maximum of \$25,000
- For W-2 base allocations greater than \$2 million and up to \$4 million – A maximum of \$50,000
- For W-2 base allocations greater than \$4 million – A maximum of \$400,000

For W-2 agencies, the routine monthly telecommunications services, including land lines, cell phones, long distance calls and internet access are included in this cap amount. Also, one-time expenditures such as the purchase of telephones or a voicemail system are included in the cap amount.

Travel Expense

See the federal allowable cost guidance for extensive discussion of the factors affecting the allowability of travel expense. In general, however, these costs are allowable for reimbursement by Department programs only if in accordance with policies and procedures approved by the agency's board of directors or the equivalent.

Chapter IV - Unallowable Costs

The Department is prohibited from paying for certain expenditures because of laws, regulations, and contracts. These costs are designated as unallowable costs and should not be charged to Department programs, either directly or indirectly. Agencies are not prohibited from incurring unallowable costs, but they cannot be recovered under Department contracts.

To manage unallowable expenses, separate accounts should be established for these types of expenses. Such costs cannot be made part of expense pools that are applied to contracts through overhead charges or through cost allocation plans. Agencies should include a cost pool or category in their chart of accounts for unallowable costs.

The determination of these expenses as unallowable is not a change in policy on behalf of the Department. These expenses have always been considered unallowable under federal cost principles and previous versions of the DCF Allowable Cost Policy Manual. They are listed here, along the rationale for their exclusion, for clarification purposes only.

In general, unallowable costs include:

- **Advertising**
Generally, advertising costs are not allowable, unless related to requests for proposals, recruitment or to post legal notices. In addition, W-2 agencies have limits on allowable advertising per their contracts.
- **Alcoholic beverages**
The purchase of alcohol for personal consumption is not an appropriate charge and according to federal and state cost principles is expressly unallowable under all circumstances.
- **Automobile allowances**
Actual expenditures for vehicles used for agency business, whether owned by the agency or for a personal vehicle owned by an employee, are allowable. The use of vehicle allowances does not reflect actual cost, but instead, is an estimate, and is not allowable.
- **Automobile costs for personal use**
The use of agency owned cars or payment of mileage for personal use is not allowed.
- **Bad debts**
Any portion of accounts receivable which has been determined to be uncollectible is a bad debt. Losses arising from uncollectible accounts and other claims that are actual or estimated are not allowable.

- Cash disbursements, cash ATM withdrawals
Checks written to “cash” or ATM cash withdrawals that are merely supported by a withdrawal receipt are not allowable expenses. Further documentation is required to provide justification for an expense charged to a DCF program.
- Complimentary coffee, snacks or meals for employees
For costs to be allowable, they must be reasonable, necessary and provide a benefit to the program. Complimentary coffee, snacks or meals for employees are not necessary costs of the program and are unallowable.
- Contingency reserves
Contingency costs are contributions to a reserve account for unforeseen costs. Contingency costs are not allowable because they are speculative in nature and do not represent an actual incurred cost.
- Costs not directly related to program needs
For costs to be allowable, they must be reasonable, necessary and provide a benefit to the program. Costs not directly related to program needs are unallowable.
- Donations, contributions and gifts
Contributions and donations are property transferred which are not transferred in exchange for supplies or services of equivalent fair market value. A gift is property transferred without receiving return consideration of equal value. Gifts, donations and contributions are unallowable.
- Entertainment
Costs unrelated to service delivery, client activities or client programs, such as costs related to public relations, social activities and incidental costs, including meals, beverages, tips and gratuities are unallowable. Modest entertainment on behalf of group home youths is allowable.
- Fundraising costs
All costs of fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable.
- Goodwill
The write-up of assets, resultant depreciation and goodwill from business combinations is unallowable.

- Goods and services for personal use
Costs related to personal use of anything as compared to program use are unallowable.
- Interest on credit card accounts and installment loans
Interest expense on credit card accounts and installment loans is not allowable.
- Investment management costs
Investment management costs are unallowable, except for costs related to the physical custody and control of monies and securities.
- IRS penalties and interest
Fines and penalties include all costs resulting from violations of, or failure to comply with Federal, State or local laws and regulations, and contract requirements. Fines are unallowable.
- Late charges and fees
Late charges and fees associated with non-payment of credit card bills, utilities, rent and other charges is not allowable.
- Legal expenses for ALJ appeals, prosecution of claims or civil or criminal actions
The cost of legal representation to related to claims against the Department, as part of an ALJ appeal, or as the result of civil or criminal actions against the agency is not an allowable cost.
- Lobbying/political activities
All costs associated with attempts to influence the enactment of modification of any pending legislation through communication with any member or employee of the state legislature, or with any government official or employee concerning a decision to sign or veto enrolled legislation are unallowable.
- Losses
The excess of cost over revenue on any contract or program is unallowable.
- Memberships, dues and subscriptions
Memberships in professional organizations and the dues that result are allowable if the organization is directly related to the program. Memberships and dues related to civic, community, or social organizations are not. Subscriptions for material directly related to the program are allowable; however, subscriptions not related to the program or that are general interest in nature are unallowable.

- NSF fees
Fees assessed for non-sufficient funds checks or drafts, whether returned or not are unallowable. Agencies are expected to maintain their accounts in a manner that precludes overdrafts from occurring.
- Overlimit fees
Overlimit fees assessed on credit cards are unallowable. Agencies are expected to maintain their accounts in a manner that does not incur these types of fees.
- Parking tickets
Fines and penalties include all costs resulting from violations of, or failure to comply with Federal, State or local laws and regulations, and contract requirements. Parking tickets are considered a fine and are unallowable.
- Personal housing and living expenses
The costs related to the personal living expenses of an agency's employees are unallowable. This includes but is not limited to: rent, utilities, auto expenses, food, dining, clothing, entertainment, insurance, furniture, and the payment of personal debt.
- Reconnection charges
Reconnection charges for utilities, telephone, and internet or cable service due to failure to pay bills on time is unallowable. Agencies are expected to maintain their accounts in a manner that does not incur these types of fees.
- Tobacco products
Costs charged to a program must be reasonable and necessary. The cost of tobacco is expressly unallowable under all circumstances.

Agencies with questions about the allowability of costs should contact the Department at DCFAuditors@wisconsin.gov to obtain approval prior to incurring the expense.

Chapter V - Documentation of Costs

Proper documentation of costs is a critical aspect of sound fiscal management. Supporting documentation provides evidence that the costs were actually incurred and paid for by the agency. Generally, documentation will be in the form of an original invoice, receipt or contract that is supported by a copy of a canceled check/electronic payment copy or other document showing that the transaction was enacted. If cancelled checks are not available, bank statements will provide evidence that the costs were paid by the agency.

In general, documentation must contain the following elements:

- Date
- Payee
- Amount of cost
- Expense account and program being charged
- Explanation describing nature of cost that reflects a benefit to the program

Disbursements without proper supporting documentation will be disallowed upon audit by the Fiscal Integrity & Audit Section staff. ATM withdrawal slips or checks made payable to cash without additional receipts showing the exact use of the entire cash amount will also be disallowed. Credit card statements alone do not constitute acceptable supporting documentation; detailed receipts are required.

The documentation requirements addressed in this Chapter do not establish new policy by the Department, but are provided to help clarify the appropriate supporting evidence that should be present to justify costs charged to DCF programs. Proper accounting procedures have always required supporting documentation for all transactions, not just expenditures.

Documentation Examples

The following table provides examples of supporting evidence that providers should maintain to satisfy documentation requirements. This list is not meant to be all inclusive, and may have to be tailored to an agency's individual programs and accounting systems. Questions regarding proper documentation may be directed to DCFAuditors@wisconsin.gov.

Item/Expense	Required Documentation Examples
Accounting/auditing fees	Engagement letter Contract Invoice from accounting firm Proof of payment
Advertising/promotion	Vendor invoices or receipts Proof of payment
Automobiles	Vehicle mileage log that identifies dates, origin and destination of trip, beginning and ending odometer readings and resulting mileage. Gasoline and maintenance receipts must reflect the vehicle being serviced or fueled. These standard apply to both vehicles owned by the agency and to personal vehicles used for agency business.
Computer programming and support	Third-party contract Vendor invoices Proof of payment
Deposit of funds	Bank deposit slip Bank statement
Equipment purchase	Vendor invoices or receipts Proof of payment Inventory records Depreciation schedules
Events	Proof of event Marketing materials Sign-in sheets Invoices Proof of payment
Fringe benefits	Payroll listing Invoices from vendors Proof of payment
Indirect costs	Approved indirect cost plan/cost allocation plan
Lease of equipment	Lease agreement Proof of payment

Item/Expense	Required Documentation Examples
Lease of real property	Lease agreement Proof of payment
Legal services/fees	Engagement letter Third-party contract Invoice Proof of payment
Management consultant fees	Third-party contract Invoice Proof of payment
Meals	Receipts Names of those present Purpose of the meeting Proof of payment
Postage	Receipts Proof of payment
Printing	Vendor invoices or receipts Proof of payment
Repairs, maintenance and cleaning	Vendor invoices or receipts Proof of payment
Residential care	Vendor invoices or receipts Proof of payment
Salary and wages	Payroll or employee listing Timesheets Payroll reports Proof of payment
Service and maintenance contracts	Third-party contracts Vendor invoices or receipts Proof of payment
Supplies and materials	Vendor invoices or receipts Proof of payment

Item/Expense	Required Documentation Examples
Telephone and utilities	Monthly invoices/statements Proof of payment
Training	Sign-in sheets Information regarding course date and training involved Curriculum Consultant/trainer agreement Invoices or receipts Proof of payment
Travel	Travel policy Travel reimbursement form Invoices or receipts Proof of payment

Appendix A — Resources & Information

[48 CFR Part 31, “Contract Cost Principles and Procedures”](#)

[2 CFE Part 215, “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations \(OMB Circular A-110\)”](#)

[2 CFR Part 220, “Cost Principles for Educational Institutions \(OMB Circular A-21\)”](#)

[2 CFR Part 225, “Cost Principles for State, Local, and Tribal Governments \(OMB Circular A-87\)”](#)

[2 CFE Part 230, “Cost Principles for Non-Profit Organizations \(OMB Circular A-122\)”](#)

[OMB Circular A-102, “Grants and Cooperative Agreements with State and Local Governments”](#)

[OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations”](#)

[OMB Circular A-133, “Compliance Supplement 2011”](#)

[*Provider Agency Audit Guide \(PAAG\)*](#)

[*State Single Audit Guidelines \(SSAG\) – Main Document*](#)

[*Appendix to the State Single Audit Guidelines for Programs from the Department of Children and Families \(2011 Revision\)*](#)

[*U.S. General Accounting Office Government Auditing Standards*](#)